

Message Text

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ACTION EB-11

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FM AMEMBASSY BANGKOK

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C O N F I D E N T I A L BANGKOK 19537

E.O. 11652: GDS

TAGS: ECON, EFIN

SUBJECT: INVESTMENT OUTLOOK

REF: A. BANGKOK 18741, B. BANGKOK 17260

1. TO THE UNCERTAINTIES CREATED FOR NEW FOREIGN PRIVATE INVESTMENT BY THE PASSAGE OF THE ALIEN BUSINESS DECREE AND THE ALIEN OCCUPATION DECREE IN LATE 1972, HAVE BEEN ADDED THE UNEXPECTED AND SUDDEN UNSEATING OF THE MILITARY GOVERNMENT IN OCTOBER AND ITS REPLACEMENT BY AN INTERIM GOVERNMENT WITH A MANDATE TO BRING REPRESENTATIVE GOVERNMENT TO THAILAND. THE PRIME MINISTER REGARDS HIS PRIMARY MISSION TO BE THE WRITING OF A NEW CONSTITUTION AND PREPARATION FOR ELECTIONS RATHER THAN MAJOR INITIATIVES DIRECTED TOWARD ECONOMIC AND SOCIAL REFORM. ON THE OTHER HAND, FINANCE MINISTER BOONMA HAS TAKEN STEPS TO REDISTRIBUTE A PART OF THE TAX BURDEN AS WELL AS TO INCREASE GOVERNMENT REVENUE WHICH ARE MORE THAN INTERIM MEASURES.

2. DIFFERING OPINIONS IN THE AMERICAN BUSINESS COMMUNITY*AND ELSEWHERE

HAVE CONTINUED OVER THE ADVERSE CONSEQUENCES OF THE ABD AND THE AOD ON FOREIGN INVESTMENT. THOSE WHO BELIEVE THE INVESTMENT CLIMATE HAS WORSENED HAVE HAD THEIR VIEWS STRENGTHENED BY THE SHARP INCREASE IN STRIKES SINCE OCTOBER AND THE WIDELY HELD OPINION THAT
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THE SANYA GOVERNMENT IS NEITHER STRONG NOR DECISIVE. RECENTLY REPORTS

HAVE BEEN RECEIVED IN THE EMBASSY THAT MIGHT BE DESCRIBED BY THE PHRASE "DEMOCRACY BLUES" AS SUGGESTED BY ONE PRESS CORRESPONDENT. IN THE EMBASSY'S OPINION THE GREATER THE BURBULENCE, PARTICULARLY ON THE LABOR SIDE, THE GREATER IS LIKELY TO BE THE NOSTALGIA AMONG MANY BUSINESSMEN FOR THE ALLEGED "GOOD OLD DAYS" OF AN AUTHORITARIAN GOVERNMENT. MAJORITY OF A SMALL GROUP OF AMERICAN BUSINESS REPRESENTATIVES, IN RESPONSE TO DIRECT QUESTION FROM AMBASSADOR DECEMBER 14, EXPOSED A DESIRE FOR A "BENEVOLENT" DICTATORSHIP AND INDICATED THEY EXPECTED A MOVE IN THIS DIRECTION AT AN INDEFINITE FUTURE DATE, THE TIMING TO BE INFLUENCED BY LOCAL SECURITY AND ECONOMIC DEVELOPMENTS.

3. ALTHOUGH THE ALIEN BUSINESS DECREE, AND TO A MUCH LESSER EXTENT THE ALIEN OCCUPATION DECREE, CONTINUE TO BE CITED BY MEMBERS OF THE AMERICAN BUSINESS COMMUNITY AS IMPEDIMENTS TO INVESTMENT, FACTUAL SUPPORT FOR THE STATEMENT HAS NOT BEEN AVAILABLE SO FAR. STATISTICS PUBLISHED BY THE BOARD OF INVESTMENT, FOR EXAMPLE, ON APPROVALS OF NEW INVESTMENTS (IMITED TO THOSE TAKING ADVANTAGE OF THE INDUSTRY PROMOTION ACT) ARE AVAILABLE ONLY THROUGH AUGUST 1973. AMERICAN OWNED LAW FIRMS IN PARTICULAR HAVE BEEN EMPHATIC IN ASSERTING THAT THE ALIEN BUSINESS DECREE HAS CAUSED MANY CLIENTS OF THEIRS TO GO ELSEWHERE TO INVEST, BUT SUCH ASSERTIONS DO NOT IN THEMSELVES CONSTITUTE STATISTICAL EVIDENCE BECAUSE OF THE POSSIBLE SUBJECTIVE VIEWS OF THE SOURCE AND BECAUSE OF THE MANY FACTORS THAT GO INTO AN INVESTMENT DECISION. THE PRESIDENT OF THE AMERICAN CHAMBER RECENTLY STATED IN PRINT THAT 25 POTENTIAL INVESTORS HAD TURNED AWAY FROM THAILAND BECAUSE OF THE ABD, BUT EMBASSY ENQUIRIES HAVE DISCLOSED THAT THE FIGURE CAME FROM A LAW FIRM AND WAS NOT INDEPENDENTLY VERIFIABLE.

4. OTHER BUSINESSMEN HAVE ARGUED FROM NEGATIVE EVIDENCE, I.E., THAILAND HAS NOT FARED SO WELL AS THE PHILIPPINES, SINGAPORE AND MALAYASIA, FOR EXEMPLE, IN ATTRACTING FOREIGN INVESTMENT. A SAMPLE QUESTION ASKED IS HOW MANY YEARS HAVE PASSED SINCE THAILAND MANAGED TO ATTRACT A MAJOR INVESTMENT? THE RECENT DECISION OF NATIONAL SEMI-CONDUCTORS TO ESTABLISH A FACTORY IN THAILAND WAS SWEEPED AWAY BY THE SAME BUSINESS SOURCE AS CONSTITUTING A SMALL INVESTMENT THAT COULD BE LIQUIDATED QUICKLY WITH A MINIMUM OF LOSS BECAUSE OF THE SIMPLICITY AND LABOR-INTENSIVENESS OF THE MANUFACTURING

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PROCESS.

5. PRIOR TO THE EVENTS OF MID-OCTOBER, ALL THE AVAILABLE STATISTICAL EVIDENCE INDICATED THAT FOREIGN PRIVATE INVESTMENT IN THAILAND WAS EXPANDING AT A HEALTHY RATE RATHER THAN CONTRACTING. IT IS ALSO TRUE THAT NO LARGE AMERICAN INVESTMENT PROJECT WAS INCLUDED IN THE TOTAL. THE COMMERCE MINISTRY OFFICIAL IN CHARGE OF IMPLEMENTING THE ALIEN BUSINESS DECREE, AND ONE WHO IS A STRONG DEFENDER OF IT, ASSERTED

EMPHATICALLY TO A VISITING AMERICAN PROFESSOR ON DECEMBER 11 THAT THE ABD HAD NOT ADVERSELY AFFECTED FOREIGN INVESTMENT. HE GAVE THE BOARD OF INVESTMENT AS HIS COURSE.

6. EVENTS SINCE MID-OCTOBER, RATHER THAN THE TOPPLING OF THE THANOM-PRAPHAT GOVERNMENT IN ITSELF, HAVE ADDED TO THE CONCERN EXPRESSED ON THE DEGREE OF ATTRACTIVENESS OF THAILAND TO FOREIGN INVESTORS. STRIKES AND AN ALLEGED WEAKENING OF THE LAW ENFORCEMENT AGENCIES HAVE BEEN CITED AS MAJOR REASONS. HOWEVER, THE CRITICISMS ARE ISOLATED AND CONCRETE EVIDENCE REMAINS LACKING. MOREOVER, THE CAUSE FOR THE CONCERN, IN PARTICULAR THE MANY AND SUDDEN STRIKES, ARE TOO RECENT TO HAVE REGISTERED IN THE PERTINENT STATISTICS.

7. THAT INVESTORS WOULD BE CONCERNED AND HESITANT DURING THE CURRENT STAGE OF THAILAND'S GROPING TOWARD A MORE REPRESENTATIVE GOVERNMENT WOULD APPEAR LIKELY. THE UNCERTAINTY ABOUT THE FUTURE IS AGGRAVATED BY THE OIL CRISIS AND PERSISTING INFLATIONARY PRESSURES. IT SHOULD BE ANTICIPATED, THEREFORE, THAT FOREIGN INVESTMENT DECISIONS FOR THAILAND MAY WELL BE POSTPONED WITH A CONSEQUENT SLOWING OF CAPITAL INFLOW, AT LEAST UNTIL SUCH TIME AS THE INVESTOR CAN ASSESS THE GOVERNMENT NOW SCHEDULED TO BE ELECTED NEXT SUMMER.
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